

Message Text

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ACTION EUR-12

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TO SECSTATE WASHDC 2899
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BRUSSELS FOR USEC

E.O. 11652 N/A
TAGS: EFIN, IT
SUBJ: PRESS PICKS UP EC 1978 AND 1979 FORECAST FOR ITALY

1. LA STAMPA CARRIES A REPORT ON MAY 17, DATED LINED ROME, WHICH PURPORTS TO SUMMARIZE EC PROJECTIONS FOR THE ITALIAN ECONOMY IN 1978 AND 1979. THE REPORT STATES THAT ACCORDING TO EC EXPERTS, THE PROSPECTS FOR 1978 ARE FOR AN EXPANSION OF ECONOMIC ACTIVITY IN COMING MONTHS. THIS PROSPECT HOWEVER, IS CONDITIONED BY THE DIFFICULTY THE GOVERNMENT IS HAVING IN HOLDING THE PUBLIC SECTOR DEFICIT TO A CEILING OF 24,000 BILLION LIRE. A MORE PRUDENT ESTIMATE, ACCORDING TO THESE EXPERTS, WOULD INDICATE THE PUBLIC SECTOR CASH DEFICIT AT NOT LESS THAN 26,000 BILLION LIRE -- CONSIDERING HOW FAR ADVANCED 1978 ALREADY IS. EC EXPERTS EXPECT REAL GROWTH TO REACH 2 PERCENT, PRICES TO RISE ABOVE 13 PERCENT AND THE BALANCE OF PAYMENTS SURPLUS (CURRENT ACCOUNT) TO BE ABOUT 2,600 BILLION LIRE.

2. THE ARTICLE GOES ON TO SAY THAT THE EC REPORT SUGGESTS THAT WITH NO GOVERNMENT INTERVENTION IN THE ECONOMY, UNCLASSIFIED

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GROWTH IN 1979 WILL ALSO BE MODEST. THE ENLARGED PUBLIC SECTOR DEFICIT, IN THE ABSENCE OF DRASTIC MEASURES, COULD REACH 33,500 BILLION LIRE, NEARLY 14.5 PERCENT OF GDP. THIS WILL RESULT IN A CONTINUED RESTRICTIVE MONETARY POLICY WITH INTEREST RATES CONTINUING ABOVE THE LEVEL OF THOSE IN OTHER COUNTRIES.

3. CONCERN IS ALSO EXPRESSED REGARDING THE COST OF LABOR.
ACCORDING TO THE EXPERTS, TOTAL SALARIES C
RISE BY 19

PERCENT IN 1979, THANKS TO THE AUTOMATIC WAGE ESCALATOR
AND NEW LABOR CONTRACTS. HOWEVER, THE RISE OF DISPOSABLE
INCOME, DUE TO THE EFFECT OF FISCAL DRAG, WILL BE NOTABLY
SLOWED. THUS, A DIMUNITION IN THE RATE OF SAVINGS BY
FAMILIES CAN BE FORESEEN.

4. FINALLY, IN THE COURSE OF 1979, BECAUSE OF AN EXPECTED
PICKUP IN DEMAND, GROSS FIXED INVESTMENT SHOULD RECOVER
(5.1 PERCENT ABOVE THAT OF 1978), PARTICULARLY IN CONSTRUCTION.
TAKING INTO ACCOUNT THESE FACTORS, REAL GROWTH COULD BE AROUND
3 PERCENT BUT WITH AN ACCELERATION OF INFLATIONARY PRESSURES.

5. THE FOLLOWING TABLE PUBLISHED IN THE NEWS REPORT SHOWS
PERCENT CHANGE OVER THE PREVIOUS YEAR.

	1978		1979	
	---		----	
	Q	P	Q	P
GDP	2.0	12.9	3.1	14.3
IMPORTS		5.0	6.0	6.0
EXPORTS		5.5	6.0	5.5

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PRIVATE CONSUMPTION	2.0	13.0	2.8	15.0
PUBLIC CONSUMPTION	2.0	16.7	2.5	13.4
FIXED INVESTMENT	-1.9	10.4	5.1	13.9
CONSTRUCTION	-0.5	10.0	3.0	13.5
PLANTS, EQUIP. AND				
TRANSPORTATION	-3.7	11.0	8.0	14.5
INVENTORY CHANGES	50.0	5.0	3.6	12.1

NET GOODS AND SERVICES

(GDP BASIS)

(BILLIONS OF CURRENT LIRE) -1,025 -2,000

6. LA STAMPA PUBLISHED ON THE FOLLOWING DAY (MAY 18) A BRIEF
TABLE SUMMARIZING THE TWO YEAR FORECAST PREPARED IN APRIL BY
ISCO (THE GOVERNMENT AGENCY WHICH STUDIES ECONOMIC TRENDS)
FOR THE EC MEETINGS. THE FOLLOWING TABLE INDICATES PERCENT
CHANGE FROM THE PREVIOUS YEAR.

	1978		1979	
	----		----	
	Q	P	Q	P

GDP	2.0	13.5	4.0	11.5	
PRIVATE CONSUMPTION		2.0	13.0	4.0	11.0
PUBLIC CONSUMPTION		1.8	16.3	2.0	14.5
FIXED INVESTMENT		-0.7	12.6	4.2	11.5
EXPORTS	6.0	9.0	6.0	7.0	
IMPORTS	5.0	9.0	8.0	7.0	

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